

International Business: The New Realities

Fifth Edition, Global Edition



International Business

The New Realities

FIFTH EDITION

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Chapter 2

Globalization of Markets and the Internationalization of the Firm

Learning Objectives

- 2.1** Understand market globalization as an organizing framework.
- 2.2** Learn the driving forces of globalization.
- 2.3** Understand the impact of technological advances and globalization.
- 2.4** Learn the dimensions of globalization.
- 2.5** Understand firm-level consequences of market globalization.
- 2.6** Understand the societal consequences of globalization.

Overview on Globalization of Markets

- Globalization and technological advances have altered the international business landscape more than any other trends.
- In this class, globalization refers to the interconnectedness of national economies and the growing interdependence of buyers, producers, suppliers, and governments around the world.
- Globalization allows firms to view the world as one large marketplace for goods, services, capital, labor, and knowledge.

- Globalization has been around for centuries- the early civilizations in the Mediterranean, Middle East, Asia, Africa, and Europe have all contributed to its growth.
- **Globalization of markets** is the integration and interdependence of national economies.
- Globalization is chronicled through international trade, triggered by world events and technological discoveries. Globalization has progressed through four phases, since the early 1800s. The current phase was stimulated by the rise of IT, the Internet, and other advanced technologies.

Phases of Globalization (1 of 2)

Phase of Globalization	Approximate Period	Triggers	Key Characteristics
First phase	1830 to late 1800s, peaking in 1880	Introduction of railroads and ocean transport	Rise of manufacturing: cross-border trade of commodities, largely by trading companies
Second phase	1900 to 1930	Rise of electricity and steel production	Emergence and dominance of early MNEs (mainly from Europe and North America) in manufacturing, extractive, and agricultural industries
Third phase	1948 to 1970s	Formation of General Agreement on Tariffs and Trade (GATT); conclusion of World War II; Marshall Plan to reconstruct Europe	Focus by industrializing Western countries to reduce trade barriers; rise of MNEs from Japan; development of global capital markets; rise of global trade names

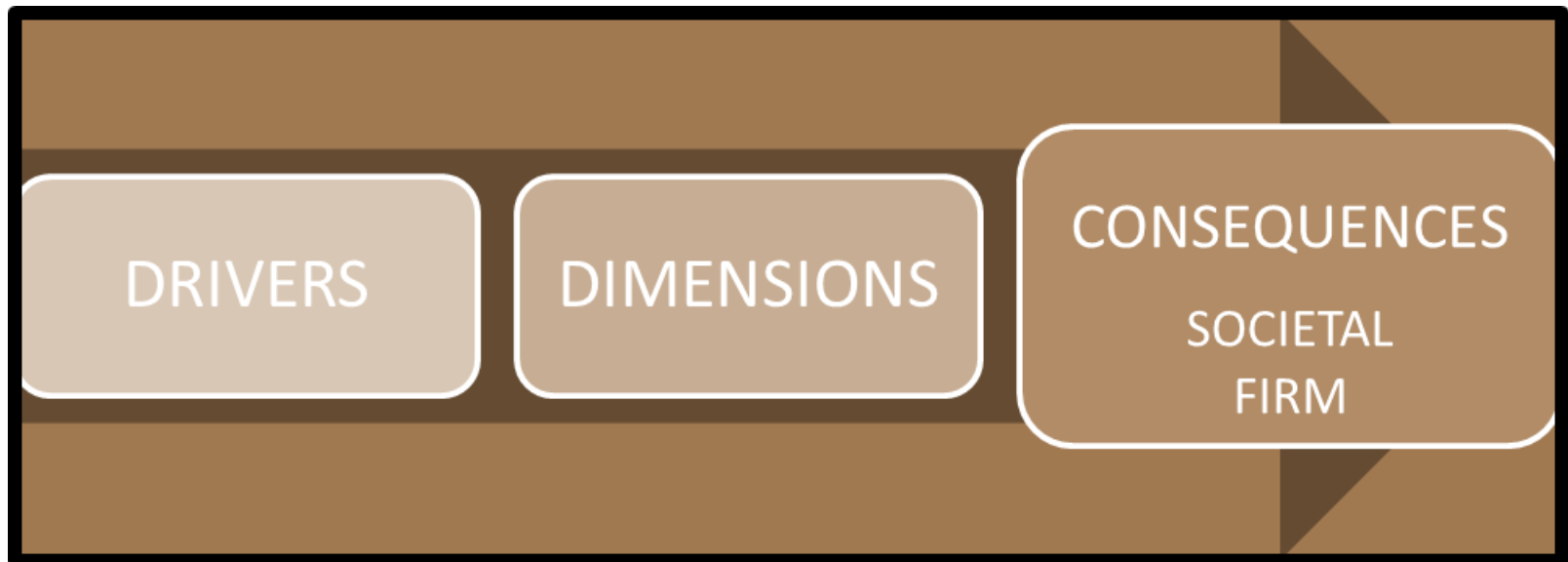
Phases of Globalization (2 of 2)

Phase of Globalization	Approximate Period	Triggers	Key Characteristics
Fourth phase	1980s to about 2006	Privatization of state enterprises in transition economies; revolution in information, communication, and transportation technologies; remarkable growth of emerging markets	Rapid growth in cross-border trade of products, services, and capital; rise of internationally active SMEs and services firms; rising prosperity of emerging markets
Fifth phase	2007 to present	Rise of digital technologies, and other new technologies, which are boosting manufacturing productivity and the efficiency of international trade in services	Leveraging technology to facilitate trade and local production; rising trade in digitally enabled services but slowing growth of trade in merchandise goods

The Death of Distance

In This Time Period...	Fastest Transportation Was Via	At a Speed of...
1500 to 1840s	<ul style="list-style-type: none">• Human-powered ships and horse-drawn carriages	10 miles per hour
1850 to 1900	<ul style="list-style-type: none">• Steamships• Steam locomotive trains	36 miles per hour 65 miles per hour
Early 1900s to today	<ul style="list-style-type: none">• Motor vehicles• Propeller airplanes• Jet aircraft	75 miles per hour 300-400 miles per hour 500-700 miles per hour

- The organizing framework used to explain globalization consists of **drivers** (inputs), **dimensions** (processes) and **consequences** – both societal and firm-level (outputs)



The Drivers, Dimensions, and Consequences of Market Globalization

1. Drivers of Market Globalization

- Worldwide reduction of barriers to trade and investment
- Transition to market-based economies and adoption of free trade in China, former Soviet Union countries, and elsewhere
- Industrialization, economic development, and modernization
- Integration of world financial markets
- Advances in technology

2. Dimensions of Market Globalization

- Integration and interdependence of national economies
- Rise of regional economic integration blocs
- Growth of global investment and financial flows
- Convergence of buyer lifestyles and preferences
- Globalization of production activities
- Globalization of services

3a. Societal Consequences of Market Globalization

- Contagion: Rapid spread of financial or monetary crises from one country to another
- Loss of national sovereignty
- Offshoring and the flight of jobs
- Effect on the poor
- Effect on the natural environment
- Effect on national culture

3b. Firm-level Consequences of Market Globalization: Internationalization of the Firm's Value Chain

- Countless new business opportunities for internationalizing firms
- New risks and intense rivalry from foreign competitors
- More demanding buyers who source from suppliers worldwide
- Greater emphasis on proactive internationalization
- Internationalization of firm's value chain

The Driving Forces, Dimensions, and Consequences of Market Globalization (1 of 4)

1. Driving Forces of Market Globalization

- Worldwide reduction of barriers to trade and investment
- Market liberalization and adoption of free trade (e.g., in China, former Soviet Union countries, and elsewhere)
- Industrialization, economic development, and modernization
- Integration of world financial markets
- Advances in technology

The Driving Forces, Dimensions, and Consequences of Market Globalization (2 of 4)

2. Dimensions of Market Globalization

- Integration and interdependence of national economies
- Rise of regional economic integration blocs
- Growth of global investment and financial flows
- Convergence of buyer lifestyles and preferences
- Globalization of production activities
- Globalization of services

The Driving Forces, Dimensions, and Consequences of Market Globalization (3 of 4)

3a. Firm-level Consequences of Market Globalization: Internationalization of the Firm's Value Chain

- Countless new business opportunities for internationalizing firms
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The Driving Forces, Dimensions, and Consequences of Market Globalization (4 of 4)

3b. Societal Consequences of Market Globalization

- Contagion: Rapid spread of financial or monetary crises from one country to another
- Loss of national sovereignty
- Offshoring and the flight of jobs
- Effect on the poor
- Effect on the natural environment
- Effect on national culture

Dimensions of Market Globalization (1 of 3)

- **Integration and interdependence of national economies.** Results from firms' collective international activities. Governments contribute by lowering trade and investment barriers.
- **Rise of regional economic integration blocs.**
- Free trade areas are formed by two or more countries to reduce or eliminate barriers to trade and investment, such as the EU, NAFTA, and MERCOSUR.



Dimensions of Market Globalization (2 of 3)

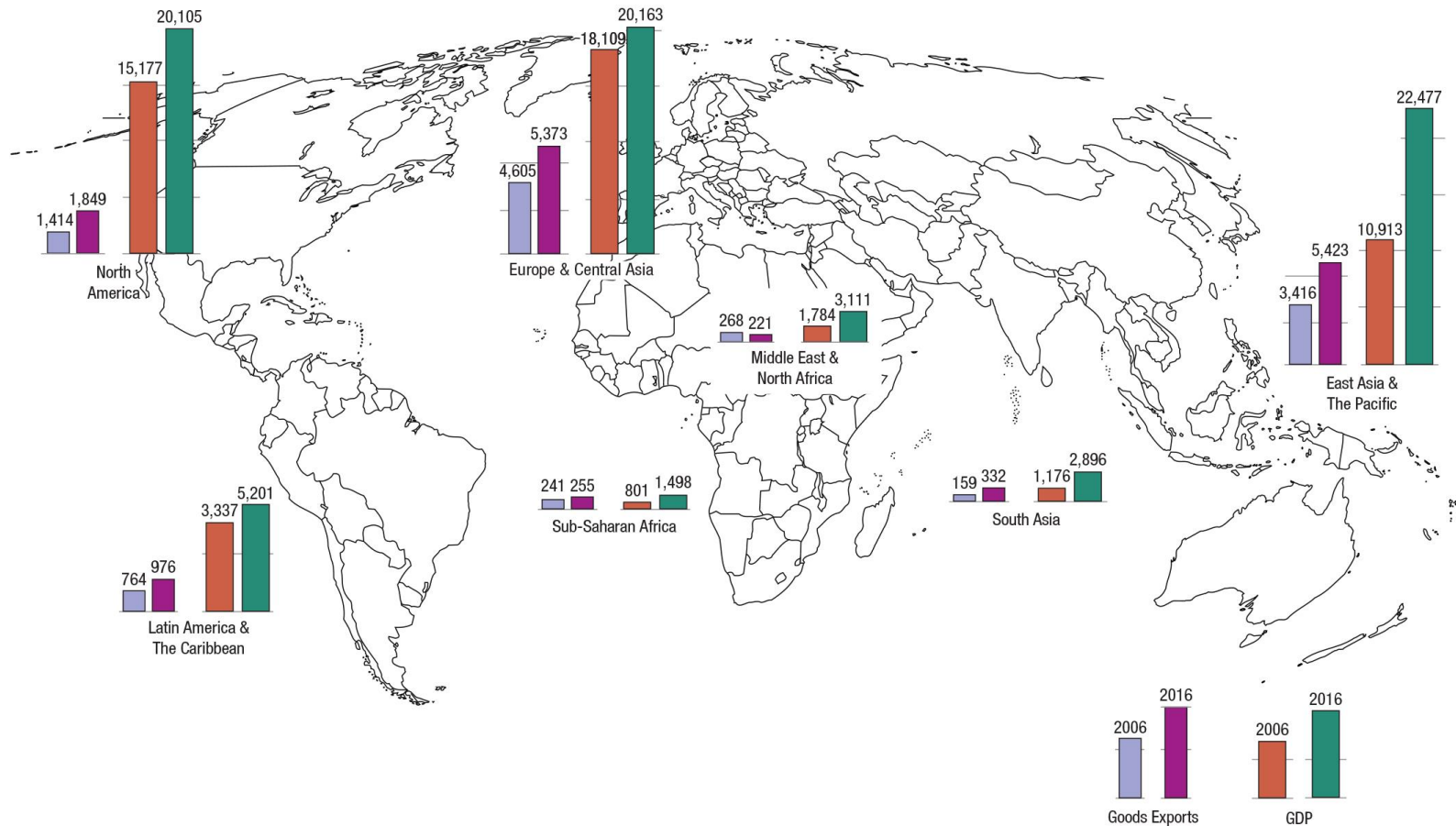
- **Growth of global investment and financial flows.** Associated with rapid growth in foreign direct investment (FDI), currency trading, and global capital markets.
- **Convergence of buyer lifestyles and preferences.** Facilitated by global media, which emphasize lifestyles found in the U.S., Europe, or elsewhere. Firms market standardized products.



Dimensions of Market Globalization (3 of 3)

- **Globalization of production.** To cut costs, firms manufacture in low labor-cost locations such as Mexico and Eastern Europe. Firms also source services from abroad.
- **Globalization of services.** Banking, hospitality, retailing, and other service industries are rapidly internationalizing. Firms outsource business processes and other services in the value chain to vendors overseas. And, in a new trend, many people go abroad to take advantage of low-cost services.

Relationship Between Trade and GDP Growth, in Billions of U.S. Dollars



Source: Based on World Bank, Data, 2018, www.worldbank.org.

Driving Forces of Market Globalization

(1 of 3)

- **Worldwide reduction of barriers to trade and investment.**
Over time, national governments have greatly reduced trade and investment barriers. The trend is partly facilitated by the World Trade Organization (WTO), an organization of some 150 member nations.
- **Market liberalization and adoption of free markets.**
Free market reforms in China, India, and other nations opened about 1/3 of the world to freer trade.



Driving Forces of Market Globalization (2 of 3)

- **Industrialization, economic development, and modernization.** These trends transformed many developing economies from producers of low-value to higher-value goods, such as electronics and computers.



Simultaneously, rising living standards have made such countries more attractive as target markets for sales and investment.

Gross National Income in U.S. Dollars (2017) (1 of 2)

Gross National Income
per Capita, in U.S. Dollars, 2017



SOURCE: Based on World Bank (2018); World Bank Development Indicator database, GNI per capita, Atlas method (current US\$), www.data.worldbank.org.

Gross National Income in U.S. Dollars (2017) (2 of 2)



Driving Forces of Market Globalization

(3 of 3)

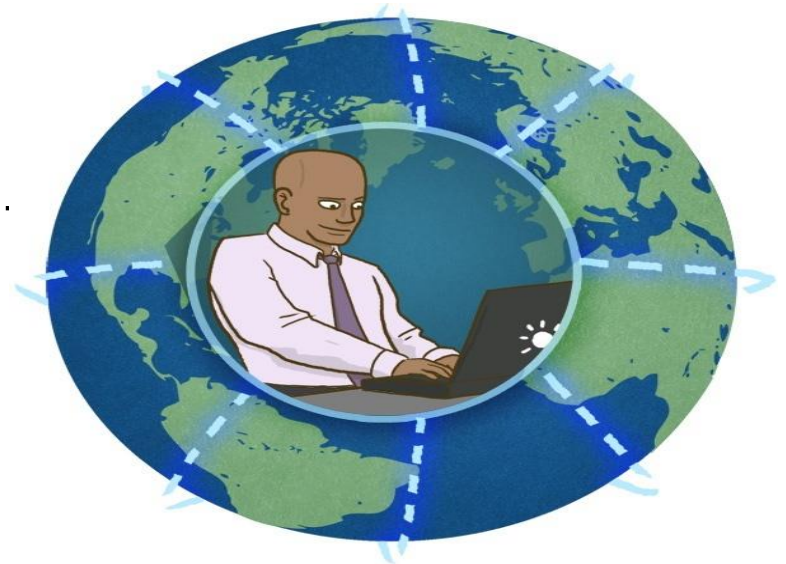
- **Integration of world financial markets.** Enables firms to raise capital, borrow funds, and engage in foreign currency transactions wherever they go. Banks now provide a range of services that facilitate global transactions.
- **Advances in technology.** Reduces the cost of doing business internationally, by allowing firms to interact cheaply with suppliers, distributors, and customers worldwide. Facilitates the internationalization of companies, including countless small firms.



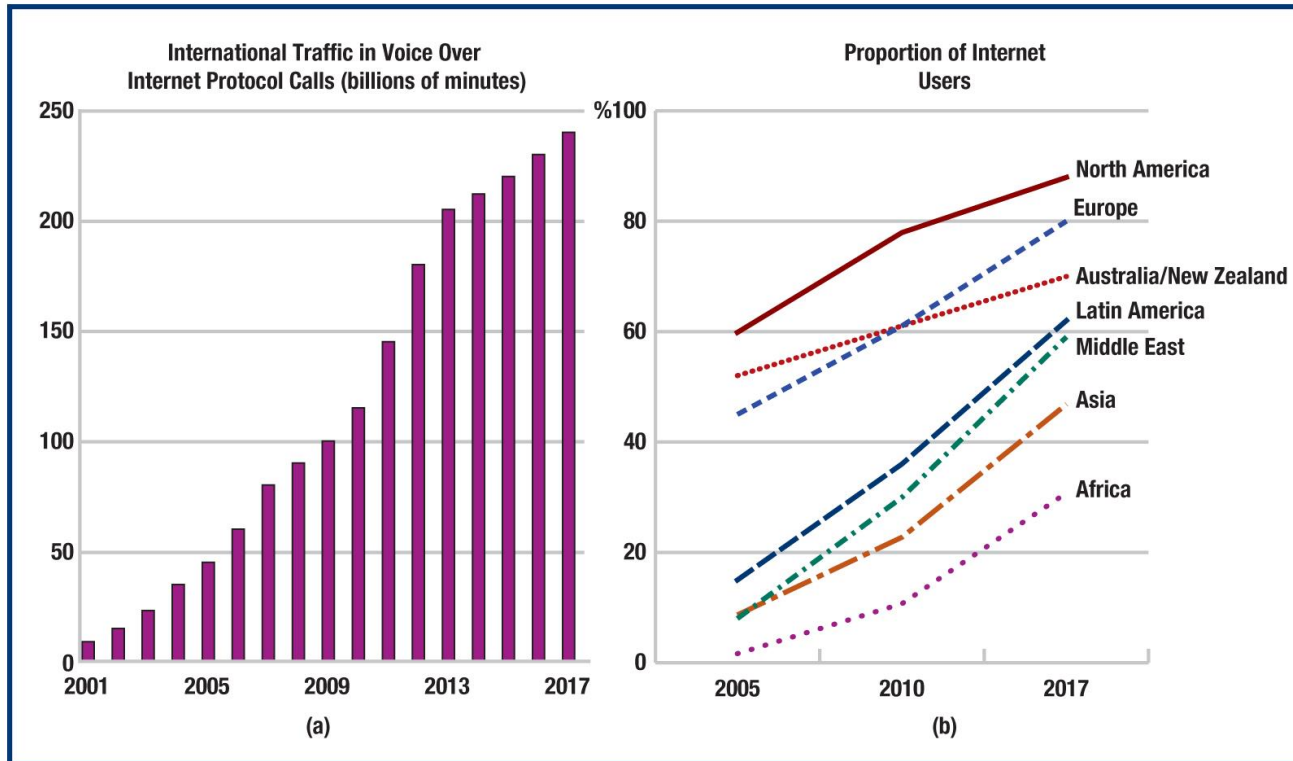
Source: REDPIXEL.PL/Shutterstock

Digital Technologies

- Profound advances have occurred in computers, digital technologies, telephony, and the Internet.
- MNEs leverage digital technologies to optimize their performance, managing operations around the world.
- Digital technologies opened the global marketplace to firms that historically lacked the resources internationalize.



Declining Cost of Global Communication and Growing Number of Internet Users



Sources: BridgeVoicePluto, "Disrupting Wholesale Telecom: VoIP Market Trends and Predictions," 2017, www.bridgevoice.com ; IMF, World Economic Outlook (Washington, DC: International Monetary Fund, 2017); United Nations International Telecommunications Union, ICT Statistics, 2017, www.itu.int ; Internet World Stats, Internet Usage Statistics, 2018, www.internetworldstats.com

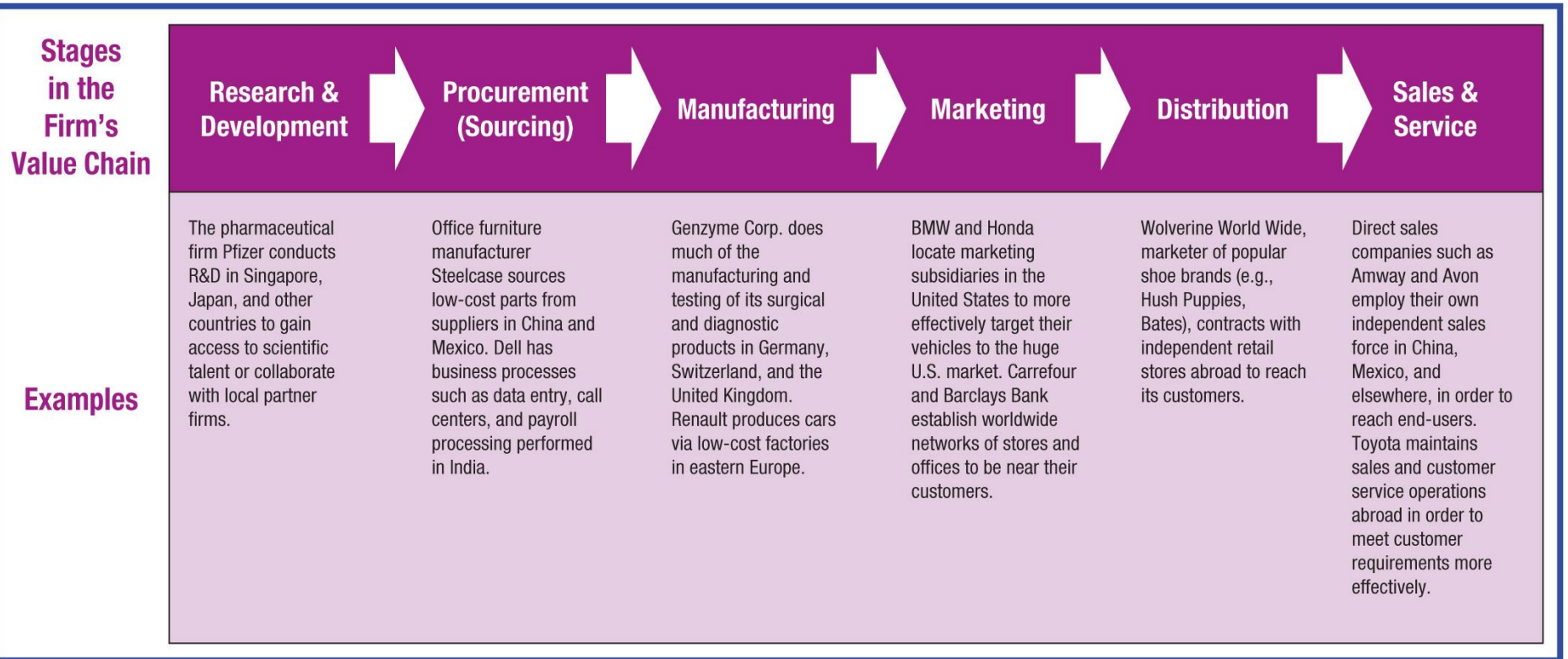
Manufacturing and Transportation Technologies

- **Revolutionary developments facilitate low-scale and low-cost manufacturing;** firms can make products cost-effectively even in short production runs. Online platforms are increasing the productivity of business and industrial activity.
- In transportation, key advances include fuel-efficient jumbo jets, giant ocean-going freighters, and containerized shipping. The cost of international transportation has declined substantially, spurring rapid growth in global trade.
- Collectively, technological advances have greatly reduced the costs of doing business internationally.

Company Internationalization and the Value Chain

- The most significant implication of market globalization for companies is that a purely domestic focus is no longer viable in most cases.
- Market globalization compels firms to internationalize their value chain, and access the benefits of international business.
- Value chain: The sequence of value-adding activities performed by the firm in the process of developing, producing, and marketing a product or a service.
- Globalization allows the firm to internationalize its value chain, leading to various advantages.

Internationalization of the Firm's Value Chain (1 of 2)



Internationalization of the Firm's Value Chain (2 of 2)

- The truly international firm configures its sourcing, manufacturing, marketing, and other value-adding activities on a global scale.
- Rationale:
 - cost savings
 - increase efficiency, productivity, and flexibility of value chain activities
 - access customers, inputs, labor, or technology
 - benefit from foreign partner capabilities

Societal Consequences of Globalization

Positive consequences of market globalization:

- Advances in living standards;
- Cross-border trade and investment opened the world to innovations and progress while increasing performance standards, known as *global benchmarking* or *world class*.

■ **Negative consequences** of market globalization:

- The transition to an increasingly single, global marketplace poses challenges to individuals, organizations and governments.
- Poverty is especially notable in Africa, Brazil, China and India where lower-income countries have not been able to integrate with the global economy as rapidly as others.
- Globalization has created countless new jobs and opportunities around the world, but it has also cost many people their jobs.

Societal Consequences of Globalization

(1 of 4)

- **Loss of National Sovereignty.** M N E activities can interfere with governments' ability to control of their own economies and social-political systems. Some firms are bigger than the economies of many nations (e.g., Walmart, Shell).
- However, some argue that global competition in the context of global free trade makes M N E s less powerful (e.g., The U S auto industry declined as foreign rivals from Japan and Europe entered the U S market. Some day, Walmart may be overtaken by a giant Chinese retailer).



Societal Consequences of Globalization

(2 of 4)

- **Offshoring and the Flight of Jobs.** Jobs are lost as firms shift production of goods and services abroad, in order to cut costs and obtain other advantages. Firms benefit, communities and industries are disrupted. However, some MNEs undertake *reshoring*-returning production to the home country to benefit from home-based advantages.
- **Effect on the Poor.** In poor countries, while globalization usually creates jobs and raises wages, it also tends to disrupt local job markets. MNEs may pay low wages, and many exploit workers or employ child labor. Globalization's benefits are not evenly distributed.

Societal Consequences of Globalization

(3 of 4)

Example

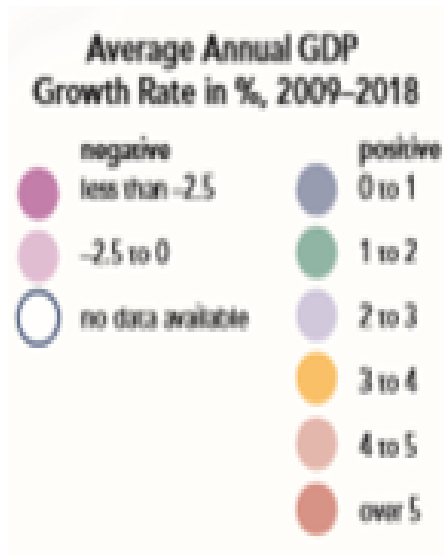
- Many people in India are losing jobs as the hand-woven textiles industry is being gradually automated.



Example: Nike's Foreign Factories

- Nike has 100s of factories in Asia, Latin America, and elsewhere.
- Nike was criticized for paying low wages and operating sweatshop conditions.
- Labor exploitation and sweatshop conditions are genuine concerns in many developing economies.
- However, consideration must be given to the other choices available to people in those countries.
- Nike and many other MNEs have taken important steps to improve working conditions in their foreign plants.

Growth of World GDP, Average Annual Percent Change, 2009-2018 (1 of 2)

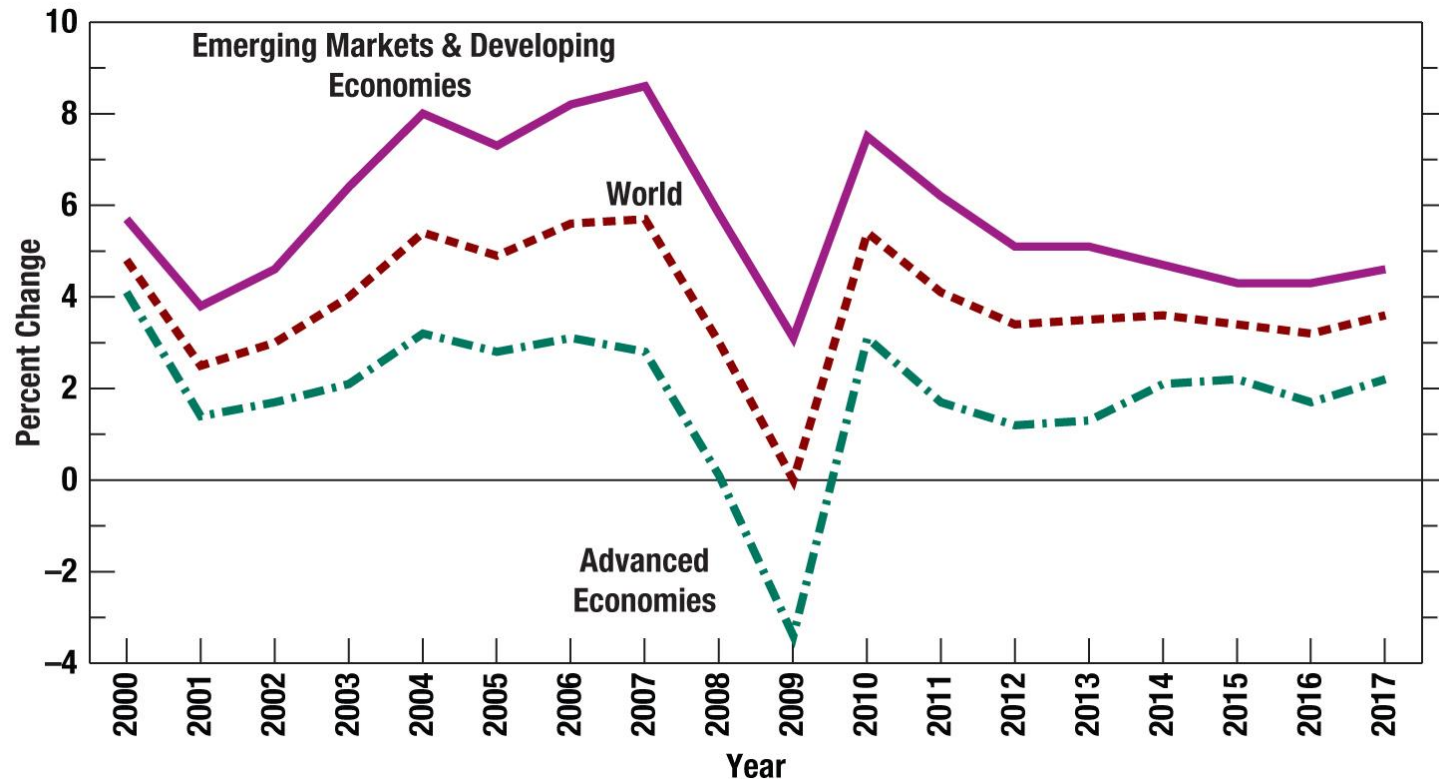


Source: International Monetary Fund, World Economic Outlook database, 2018, www.imf.org.

Growth of World GDP, Average Annual Percent Change, 2009-2018 (2 of 2)

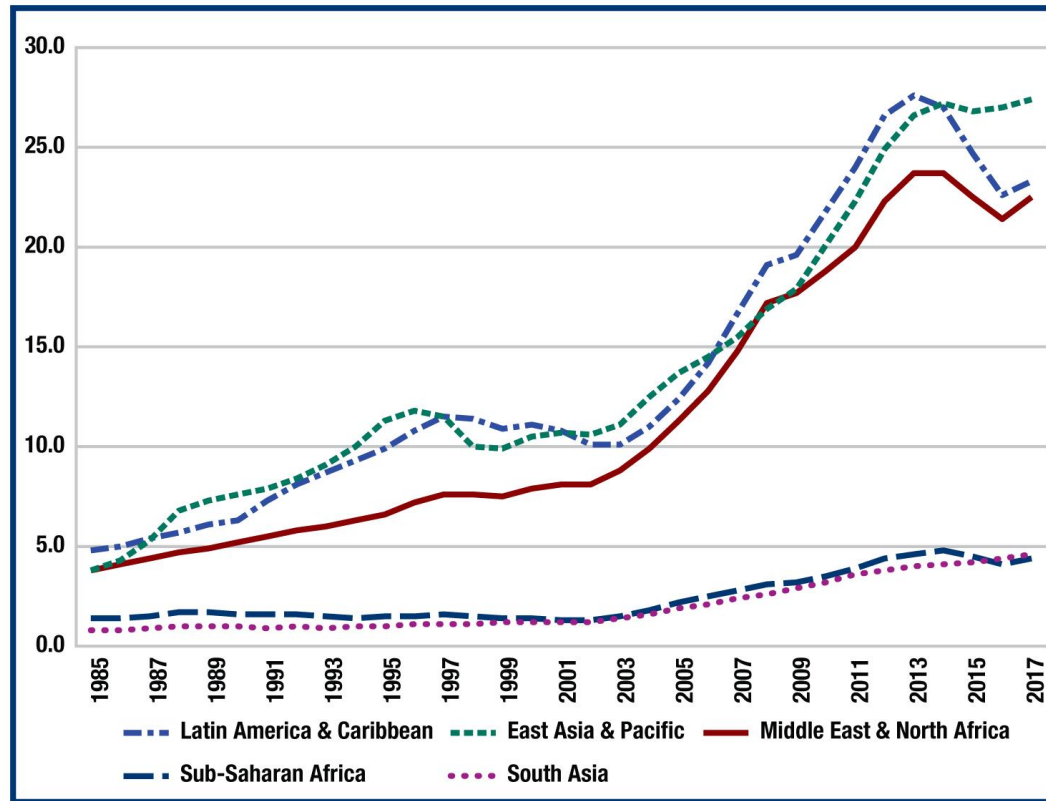


Percentage of Change in Annual GDP Growth



Sources: World Bank, Data, GDP Growth (Annual %), <http://data.worldbank.org> , 2017; IMF, World Economic Outlook (Washington, DC: International Monetary Fund, September 2017); IMF, World Economic Outlook Database, 2017, www.imf.org ; United Nations, UNData, "GDP Growth (annual %)," 2017, <http://data.un.org> .

The Rise of Daily Income Levels, by Region, in U.S. Dollars



Sources: L. Chandy, N. Ledlie, and V. Penciakova, *The Final Countdown: Prospects for Ending Extreme Poverty by 2030*, Policy Paper 2013-14 (Washington, DC: Brookings Institution); Economist, "Poverty's Long Farewell," February 28, 2015, p. 68; World Bank, GNI per capita, Atlas method (current US\$), 2017, <http://data.worldbank.org>.

Note: The figures show average daily income per capita, in U.S. dollars, adjusted for inflation.

Societal Consequences of Globalization

(4 of 4)

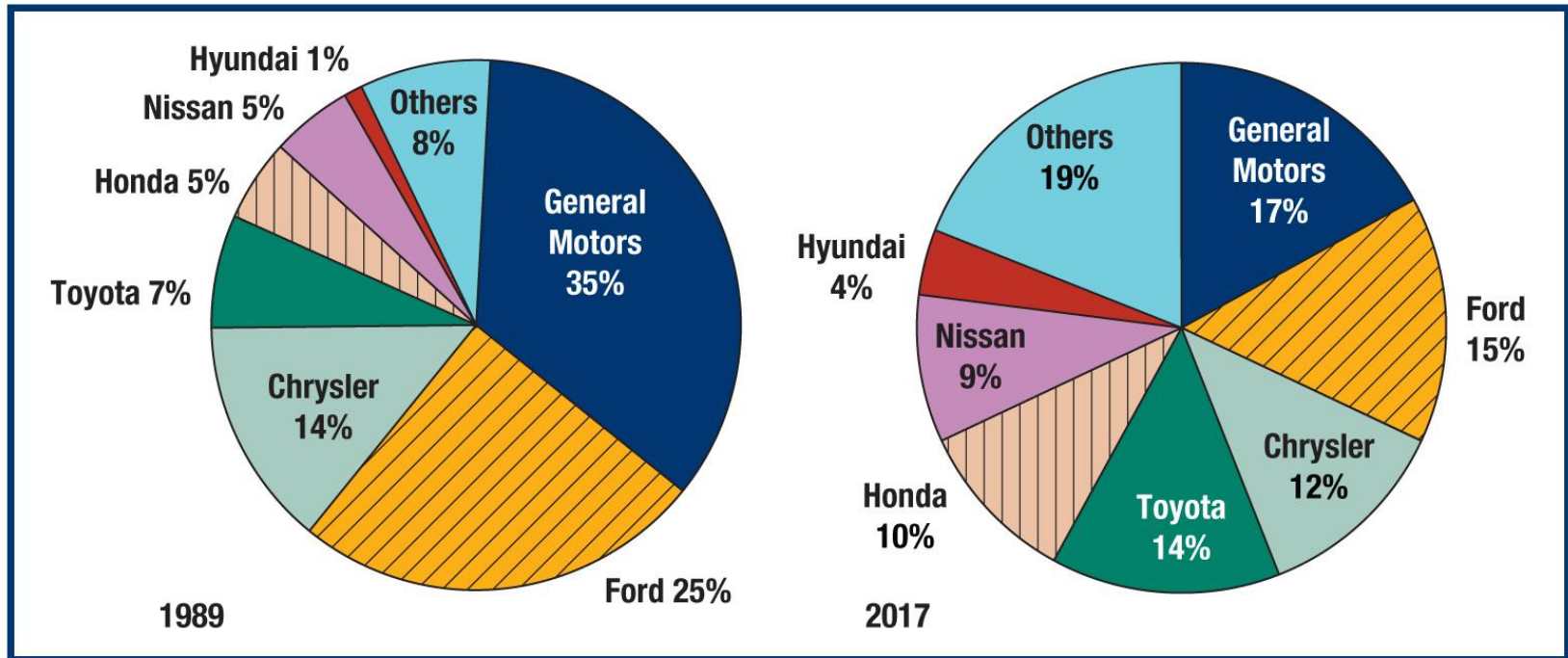
- **Effect on Sustainability and the Natural Environment.**

Globalization harms the environment by promoting industrialization and other activities that generate pollution, habitat destruction, and other environmental harm. E.g., As China and India industrialize, air and water pollution have become major hazards.

Societal Consequences of Globalization

- However, as nations develop their economies, they tend to pass laws that protect the environment. e.g., This happened in Japan from the 1960s to the 1980s. In Mexico, the government is gradually adopting policies to protect the air, water, etc.
- Effect on National Culture. Globalization opens the door to foreign firms, global brands, unfamiliar products, and new values. Increasingly, consumers buy similar products, modeled according to Western countries, especially the US. In this way, traditional norms, values, and behaviors may homogenize over time. National identity may be lost to 'global' culture.

Automaker Market Shares, Passenger Car Sales in the U.S, 1989 and 2017



Sources: Based on Craig Trudell, "U.S. Automakers Seen Losing Market Share amid 2012 Growth: Cars," Bloomberg BusinessWeek, February 8, 2012, www.businessweek.com ; J. Muller, "Automakers Gold Rush," Forbes, June 8, 2009, pp. 70-77; Wall Street Journal, "Sales and Total Share of Market by Manufacturer," February 1, 2018, www.wsj.com/mdc/public/page/2_3022-autosales.html

Ethical Connections

- In six years, Nigeria increased its telecom infrastructure from just 500,000 phone lines to more than 30 million cellular subscribers.
- This led to a big rise in productivity and commerce, which has helped improve living standards.
- Access to cell phones saves wasted trips, provides access to education and healthcare, and facilitates communication between suppliers and customers.
- MNE telecom investment in Africa allows firms to fulfill social responsibilities and improve the lives of millions of poor people.

You Can Do It: Terrance Rogers (1 of 3)

- **Terrance's majors:** Finance and International Business
- **Objectives:** Exploration, international perspective, self-awareness, career growth, learning about foreign markets
- **Internships during college:** Deutsche Bank
- **Jobs held since graduating:** All at Deutsche Bank, Business Analyst, Management Associate, Executive Management Rotation, in New York. Most recently, Executive Management Associate at Deutsche Bank, London.



You Can Do It: Terrance Rogers (2 of 3)

Terrance's Advice for an International Career:

- Early exposure at his university to international business and study abroad

Success Factors:

- Work on projects that expose you to people in different regions across the globe
- Mention your interest in working abroad early and bring it up in your annual review

You Can Do It: Terrance Rogers (3 of 3)

- Find a way to impress the people who can make the decision. It becomes easier to make the move when the “right people” know you can deliver.

Challenges:

- Language and cultural barriers should be faced early in your career. Learn from cultural missteps early, so that you can be a better leader tomorrow.

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